

Message Text

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PAGE 01 EC BRU 06967 142113Z

73

ACTION EUR-12

INFO OCT-01 ISO-00 STRE-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04

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PASS: AGRICULTURE; STR ELECTRONICALLY

E.O. 11652: N/A

TAGS:

SUBJECT: COMMISSION PROPOSAL TO TAX ELIGIBLE VEGETABLE/
MARINE OILS

REF: (A) STATE 170962, (B) EC BRUSSELS 6774, (C) EC BRUSSELS 6850

1. SUMMARY: FOLLOWING PRESENTATION ON JULY 12 OF SUBSTANCE
OF STATE 170962 TO HANS WIJNMAALEN, CHIEF OF CABINET OF
EC COMMISSIONER FOR AGRICULTURE LARDINOIS, WIJNMAALEN GAVE
AGATTACHE MONTEL AND FRASER (AGRIC) NEW INFORMATION ON
COMMISSION'S PRESENT THINKING REGARDING APPLICATION OF PROPOSED
TAXES ON MILK AND EDIBLE VEGETABLE/MARINE OILS.
END SUMMARY.

2. WIJNMAALEN, IN RESPONSE TO QUESTIONS BY MONTEL AND
FRASER, EXPLAINED THAT PROCEEDS OF PROPOSED TAX ON MILK WOULD
BE PAID INTO FEOGA FUNDS. THIS IS AUTHORIZED UNDER ARTICLE
43 OF ROME TREATY. HE SAID THESE FUNDS WOULD BE USED TO
SUBSIDIZE THE RETURN OF SKIM MILK FROM DAIRIES TO FARMERS FOR
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PAGE 02 EC BRU 06967 142113Z

USE IN PAG FEEDING AND MAY ALSO BE USED TO SUBSIDIZE THE

PRICE OF BUTTER TO CONSUMERS. PROBABLY SOME OF THESE FUNDS WOULD BE USED AS WELL TO DISPOSE OF REMAINING LARGE STOCKS OF NFDM HE SAID. TAXES ON EDIBLE VEGETABLE/MARINE OILS WOULD BE COLLECTED BY MEMBER STATES AS REVENUE, I.E., THE OIL LEVY PROCEEDS WOULD NOT BE CONSIDERED AS THE COMMUNITY'S "OWN RESOURCES," THIS IS CONTRARY TO WHAT WAS INTENDED WITH REVENUE OF MANSHOLT'S 1969 PROPOSED MARGARINE TAX, WHERE SUCH REVENUE WOULD ACCRUE TO THE COMMUNITY UNDER ARTICLE 201 OF THE ROME TREATY. THEREFORE, THE COMMISSION WOULD HAVE NO AUTHORITY OVER SUCH FUNDS, BUT IT WILL URGE THE MEMBER STATES TO USE THE PROCEEDS OF THE PROPOSED TAX ON EDIBLE OILS TO FUND AID PROGRAMS IN THE ACP COUNTRIES WHICH EXPORT TAX/AFFECTED OIL BEARING MATERIALS TO THE EC. WIJNMAALEN CONCEDED, HOWEVER, THERE WAS NO WAY THE COMMISSION COULD ENFORCE THIS.

3. WIJNMAALEN SAID THE MILK TAX WOULD BE APPLIED ACROSS THE BOARD ON ALL MILK DELIVERIES TO DAIRIES WHICH HE SAID CURRENTLY TOTAL 84 MILLION TONS (THE PROPOSAL SAYS EXCEPT MILK FROM HILL AND LESS-FAVORED AREAS.) ANOTHER 5 TO 6 MILLION TONS OF MILK IS USED TO PRODUCE BUTTER ON FARMS, AND THIS WOULD ALSO BE TAXED. HE SAID THEY CALCULATE THAT EACH ONE PERCENT TAX ON THE TARGET PRICE FOR MILK WOULD PRODUCE REVENUE OF BETWEEN 1.5 AND 1.6 U.A. PERTON OF MILK. ON 90 MILLION TONS OF MILK AND USING A FACTOR OF 1.55 U.A. PER TON, EACH ONE PERCENT TAX WOULD PRODUCE 139.5 MILLION U.A. OR \$167.4 MILLION (AT 1.20 U.A. - \$1.00). IF THE EC COUNCIL APPROVES THE TWO TO FIVE PERCENT MILK TAX FORK MENTIONED BY LARDINOIS (REF. C), THEN THE TOTAL REVENUE WOULD RANGE FROM A MINIMUM OF 279 MILLION U.A. (\$335 MILLION) TO A MAXIMUM OF 697.5 MILLION U.A. (\$837 MILLION). USUALLY INFORMED AGRICULTURAL PRESS SOURCES SAY THE COMMISSION IS THINKING OF A 3 PERCENT LEVY ON MILK, WHICH WOULD GENERATE ABOUT 419 MILLION U.A. ANNUALLY.

4. WIJNMAALEN SAID THE INTENTION IS TO VARY THE MILK TAX IN RELATION TO THE PRICE OF SOYBEAN MEAL. WHEN MEAL PRICES ARE LOW, THE TAX WOULD BE AT THE UPPER END OF THE FORK AND WHEN MEAL PRICES ARE HIGH, THE TAX WOULD BE AT THE LOWER END. THE TAX ON OILS, HOWEVER, WOULD NOT BE

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PAGE 03 EC BRU 06967 142113Z

ADJUSTED WHEN THE MILK TAX CHANGES, ACCORDING TO WIJNMAALEN.

5. LARDINOIS SAID (REF. C) IT IS EXPECTED THE MILK TAX WILL PRODUCE MORE REVENUE THAN THE TAX ON OILS. WIJNMAALEN DECLINED TO GIVE ANY INFORMATION AS TO COMMISSION THINKING ON THE LEVEL AT WHICH THE OIL TAX MIGHT BE SET EXCEPT TO SAY THAT THE TAX WOULD APPLY TO ABOUT \$1.6 BILLION OF VEGETABLE/MARINE OILS. THE MILK TAX WOULD APPLY TO \$18

BILLION WORTH OF MILK (90 MILLION TONS X 167.6 U.A. X 1.20)
AT CURRENT TARGET PRICES.

6. COMMENT:

WE HAVE BEEN UNABLE TO GET ANY AUTHORITATIVE VIEW FROM
COMMISSION SOURCES AS JUST HOW THE COMMISSION INTENDS
TO MAKE THE TAX ON OILS "CORRESPOND" TO THE LEVY ON
MILK.

IF THE INTENT OF THE COMMISSION IS TO GENERATE REVENUE
FROM THE TAX ON VEGETABLE OILS EQUAL TO THE REVENUE FROM
THE MILK LEVY, THEN THE OIL TAX RATE WOULD HAVE TO BE
HIGH AS A PERCENTAGE OF WHOLESALE PRICES BECAUSE THE
TOTAL VALUE BASE OF VEGETABLE OILS IS SO LOW COMPARED TO
THAT OF MILK. ON THE OTHER HAND, IF THE INTENT IS TO
FIX AN OIL TAX WHOSE RATE IS PROPORTIONAL TO THAT ON
MILK, OR THAT BEARS SOME RELATIONSHIP TO IT BASED ON
FAT OR OIL CONTENT, THE RATE OF THE OIL TAX WOULD BE
LOWER, BUT THE NUMBER OF POSSIBILITIES WOULD STILL BE
LARGE. WASHINGTON MIGHT WISH TO TAKE SOME OF THESE
POSSIBILITIES INTO ACCOUNT IN PREPARING THE ANALYSIS
WHICH WE SUGGESTED IN REFTEL C.

END COMMENT. HINTON

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